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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 003610

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SUBJECT: U.S. CONVENES DONOR GROUP TO CONFRONT CORRUPTION
IN YEMEN

Classified By: Thomas C. Krajewski for reasons 1.4 (b) and (d).

1. (C) SUMMARY. Following Yemen's suspension from the Millennium Challenge Account Threshold Program (MCA), Ambassador gathered an informal group of key donors to discuss ways of jointly pushing for reform in Yemen. Declining performance in political and economic indicators has already led to a reduction in development assistance from the World Bank, and could soon affect others. The donors agreed on specific short-term benchmarks that the ROYG could use to demonstrate its commitment to reform. Despite efforts to diffuse the coordinated donor pressure, the ROYG has been forced to react. Reformers within the ROYG have urged the donors to take the reform message directly to President Saleh. END SUMMARY.

2. (C) In the wake of Yemen's November 2005 suspension as a Threshold country, post engaged other donors concerned with governance issues and ROYG corruption. Ambassador convened an informal contact group consisting of the major bilateral donors in Yemen: the U.K., Netherlands, and German missions. The group expanded to include the World Bank during a December 11 visit from Chrik Poortman, World Bank Vice President for the Middle East. Falling indicators on the Bank's Country Policy and Institutional Assessment (CPIA) index have caused the Bank to reduce development assistance by more than 30 percent for 2006. Other donors, including the Dutch and British, are linked to the CPIA index and could face similar reductions in aid to Yemen in the next year.

3. (C) The donors agreed that a lack of political will for reform and pervasive corruption impedes reform efforts. The World Bank currently holds approximately USD 700 million in undisbursed funds, earmarked for Yemen in previous fiscal years, which it has been unable to spend because of procurement irregularities, corruption, and bureaucratic delays. By presenting obstacles to reform at every turn, the ROYG has reduced progress on critical programs to a standstill. Donors have experienced severe delays in technical programs aimed at reforming tendering practices, public finance management, the civil service, and administration of elections -- this at a time when Yemen's future depends on good governance and sound economic management.

4. (C) Ambassador suggested to other heads of mission that there is a window for reform following President Saleh's trip to Washington, but it may not last. It is critical, he continued, that the donors send a clear message that the ROYG must demonstrate political will within the next six months. The donors agreed to a list of key short-term deliverables to be used as reform benchmarks, including:

- Protecting freedom of the press;
- Ensuring non-partisan elections monitoring;
- Publicizing corruption reports and taking legal action against violators;
- Reducing bureaucratic obstacles to opening a business; and
- Joining the Extractive Industries Transparency Initiative.

5. (C) Having received news of the donor discussions, Deputy Prime Minister and Minister of Planning and International Cooperation (MOPIC) Ahmad Sofan summoned all major donors to a meeting on December 11. Sofan presented the ROYG's reform agenda, urged donors to cooperate with the ROYG on such efforts, and promptly left the room. Sofan's reform plan resembled similar proposals made by the ROYG and the ruling General People's Conference in the run-up to the party convention in Aden. Although touching on many of the same target areas for reform, the plan was generally light on specifics and devoid of benchmarks or timelines.

6. (C) Donors responded uniformly that more concrete action was necessary in the near term, reflecting the urgent state of affairs for Yemen's development assistance. MOPIC proposed that donors work together with the ROYG in four joint working groups to address political rights, rule of law, corruption, and the enabling environment for business. The groups were organized by Jalal Yaqoub, coordinator for MCC within MOPIC. Members of the donor contact group took the lead in each of the working groups (post led the political group), bringing donors to a consensus on shared objectives before meeting with the ROYG. This process expanded the circle of donors to include the United Nations, France, Denmark, and the European Community.

17. (C) The first working group met to discuss corruption on December 27, with donors recommending benchmarks for the next six months in procurement reform, budgeting, and the release of information to the public on corruption. ROYG representatives, including officials from the Ministry of Finance and the President's Office, were resistant to donor suggestions and hesitant to commit their ministers to specific actions. After the meeting, Yaqoub told Econoff that the mid-level officials in the working groups would not be able to pursue specific reforms without "instructions from above." He urged the donor group to discuss proposed reforms with Saleh directly. Post is currently working with representatives of the European Union, World Bank, and U.N. to arrange a joint meeting for the heads of of these missions with the President in January.

18. (C) COMMENT: Coordinated donor activity has succeeded in increasing pressure on the ROYG to enact specific reforms. The focus on short-term benchmarks and political will surprised ROYG officials who are used to high-minded strategies for ending poverty and long-term plans for introducing political reform. The ROYG's move to form official working groups and joint strategies is largely designed to diffuse this pressure, and to create divisions within the donor community. ROYG reformers, however, are quietly happy with the donor initiative, but realize that the donors must energize the President if it is to have any chance of flourishing. With Yemen's development program on the brink, there is unanimous agreement among donors to do just that. END COMMENT.
Krajeski